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C O N F I D E N T I A L SECTION 01 OF 02 BAKU 000242

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SUBJECT: AZERBAIJAN: SOCAR PRESIDENT SAYS ANY PUBLICITY BAD
PUBLICITY

Classified By: Ambassador Anne E. Derse, Reasons 1.4 (b,d)

11. (C) SUMMARY. State Oil Company of Azerbaijan (SOCAR) continues to seek a 'zero publicity' policy in relation to its efforts to strengthen energy ties with Europe. Specifically, Socar President Abdullayev asked that USG officials not refer publicly to the current GOT-GOAJ dispute over gas transit, as he fears it will serve to harden the GOT position. Socar and Nabucco Pipeline General Manager Reinhard Mitschek had good discussions during the latter's recent visit to Baku. SOCAR continues to oppose expansion of the BTC pipeline until questions relating to post-2024 (the 'Zero Balance Date' at which the pipeline reverts back to GOAJ ownership) are answered. SEND SUMMARY.

12. (U) On March 7 Ambassador Derse met with Socar President Rovnaq Abdullayev to discuss energy developments. Also present were SOCAR Marketing Vice-President Elshad Nasirov, Foreign Investment Department Head Vagif Aliyev, and Energy Officer.

TURKEY

13. (C) Abdullayev said that recent press comments by USG officials to the effect that Turkey and Azerbaijan were having problems concerning gas transit were not helpful, as they made it harder for the GOT to back down from its position on transit. He said that Socar has always sought to keep its problems, for example with BP, out of the press, and urged that the USG also avoid focusing publicity on problems Azerbaijan was having with Turkey on transit. Ambassador Derse said she would relay these concerns.

14. (C) In response to the Ambassador's question, Abdullayev said that he hoped the relevant gas supply contracts would be signed by summer. That very day there would be meetings in Vienna between EU members and GOT Energy Ministry officials (COMMENT: The meeting was between BOTAS Nabucco Coordinator Osman Goksel led the GOT delegation and from the EU it was Brendan Devlin. OMV also attended but w/o any other Nabucco consortium members). Abdullayev said the main problem with any gas supply deal in Turkey was that no one would be willing to sign, for fear of repercussions.

NABUCCO

15. (C) SOCAR VP Nasirov said that there were the same publicity problems with Nabucco as there were with gas transit through Turkey. He said he had just had had a

four-hour meeting with Nabucco Gas Pipeline Managing Director Reinhard Mitschek, one hour of which was spent on the need to avoid any/all publicity about Socar-Nabucco negotiations, to include the signing of any agreements with Socar and/or the possibility of Socar becoming a Nabucco partner. However, an exasperated Nasirov told the Ambassador that as soon as the Socar meeting was over, Mitschek told press that "one of the provisions" of the documents he had just signed "stipulates confidentiality," and as such he couldn't say anything other

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than that the two sides were close to signing.

BTC

¶6. (C) Abdullayev said that SOCAR didn't support the expansion of BTC from one to 1.2 million barrels a day, due to the financial losses that it would entail for the GOAJ. He explained that after the Zero Balance Date there is an inverse correlation between the amount of non-Azerbaijani oil that flows through BTC and Azerbaijani ownership of the pipeline, and that BTC expansion would result in decreased GOAJ ownership of the pipeline, from 85 percent for Azerbaijan and 15 percent for Kazakhstan to 47 percent for Azerbaijan and 53 percent for Kazakhstan. Abdullayev said that while Socar was fine sending 1 mmbd through BTC, for 1.2 mmbd there would have to be "new commercial conditions and terms."

¶7. (C) Speaking more generally, Abdullayev said that while the ACG PSA was signed in 1994, BP began creating problems in July 2007 (i.e. the date it informed Socar of the revised method for calculating Rate of Return). He named recently departed BP Azerbaijan Vice-President Dr. Phil Home as the "troublemaker" primarily responsible.

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¶8. (C) Ambassador Derse asked Abdullayev if the recently agreed upon April 1 profit split shift to 80-20 percent in favor of Azerbaijan meant that SOCAR would proceed with discussing ACG Deep Gas development with the ACG Consortium. Abdullayev said that BP's actions had led to Socar "losing a year," and that it still had other outstanding issues with BP it needed to solve before moving on ACG Deep Gas.

¶9. (C) COMMENT: SOCAR has been consistent in its marked aversion to publicity in relation to its efforts to strengthen its energy links with Europe, saying it only serves to needlessly irritate Russia. Embassy is encouraged by hearing from Socar that Nabucco negotiations are more advanced than portrayed in the press. Continued SOCAR-BP acrimony threatens the timely development of ACG Deep Gas. Embassy will continue to seek clarification on pending issues between the two. END COMMENT.
DERSE